

August 23, 2020

The Honorable Stevan Pearce
Chairman, Advisory Committee
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, D.C. 20571

Dear Chairman Pearce,

The Advisory Committee of the Export-Import Bank (EXIM) of the United States established a subcommittee to review the partnership between EXIM and the Private Export Funding Corporation (PEFCO), in coordination with EXIM's notices for public comment and the EXIM Board hearing on this topic. The subcommittee, based on their working knowledge of the subject, the presentations made during the Board hearing, and in consultation with one another, recommends that EXIM continue its relationship with PEFCO by extending the arrangement between the two organizations.

EXIM can enhance U.S. economic performance by incenting the private sector to expand exports and strengthening our national security.

Sadly, US exports have fallen from nearly 14% of percent of GDP in 2014 to 11% in the first quarter of 2020 and now a mere 9% of GDP. Competition from abroad threatens future exports and limits access to reliable supply chain linkages around the world. The People's Republic of China (PRC) – in particular – has relied on various policy tools from tariffs to concessional lending to preferentially access global export markets. China now supplies nearly as much export financing as the G-7 countries combined, according to the EXIM Report on Global Export Credit Competition.

EXIM would be ill-advised to try and match China's avalanche of lending, as the granting of excessive credit often hinders growth and ends in default. Nonetheless, EXIM clearly needs to meaningfully and purposefully step up its engagement to foster a more formidable expansion of US exports.

Today, PEFCO provides an additional vehicle to grow the U.S. economy as well as address the challenge of China by broadening EXIM's footprint. Here, PEFCO taps U.S. capital markets to efficiently supplement EXIM lending capacity. It would be detrimental to allow this kind of public-private partnership, that "crowds in" the capital markets, to lapse.

Specifically, PEFCO:

- Supports exporters during times of crises as witnessed in the aftermath of COVID-19. In fact, the economic fallout from COVID-19 may hinder US corporations and supply chains into the foreseeable future.
- Funds EXIM-guaranteed transactions of sizes varying from hundreds of thousands to hundreds of millions of dollars. By doing so, PEFCO is providing funding to large and small businesses alike, further supporting all aspects of the US export economy.
- Transmits knowledge of export programs to benefit smaller and medium sized firms.

It is important to understand how PEFCO as a financial institution works.

- PEFCO is not a bank and does not independently originate loans. It is a vehicle to fund banks, who in turn finance transactions backed by EXIM.
- PEFCO does not and cannot compete with private lenders.
- PEFCO works with any lender requesting funding for a qualifying EXIM guaranteed transaction.
- PEFCO's EXIM portfolio is a reflection of the transactions lenders request PEFCO to fund so loan size, small business percentages, industry, and geographic concentrations may vary from EXIM's own portfolio.
- PEFCO pools risk by funding EXIM loans in U.S. capital markets.
- PEFCO shareholders can lose and they have. Dividends to shareholders have been zero for the last five years. Not only has the return to PEFCO owners been zero, but they have lost on the opportunity to deploy capital in other more profitable ventures.
- EXIM and PEFCO periodically sign a Standard Operating Procedures ("SOP") document that governs key aspects of the relationship. The last SOP was signed in October 2019.
- The reality is that the impact of financial regulation on banks has been to diminish the willingness of these institutions to book and hold longer-term EXIM loans on bank balance sheets. These regulations have also adversely impacted the U.S. Treasury and corporate bond markets alike.

The subcommittee does recognize that EXIM's partnership with PEFCO moderately increases risk exposure for the Federal Government, given the nature of the arrangement. Hence, we offer the following recommendations and questions for future exploration. PEFCO should:

- Diversify its portfolio by more actively lending to small and medium sized businesses, reducing exposures to Chinese entities from 18% of the total, and shrinking exposure to the aircraft industry – which totals 86% at PEFCO.
- Portfolio shifts could take years – as the present composition was developed over years and decades.
- Deepen risk management capabilities in tandem with a growing loan portfolio to protect the U.S. taxpayer.
- Engage the Inspector General (IG) to ensure best practices and transparency.
- Explore alternative opportunities to potentially expand PEFCO's ability to leverage private sector pools of capital to supplement EXIM lending activities.
- Illustrate cost and benefits by a regular report and review.

As members of an EXIM advisory committee focused on the PEFCO partnership, we advise you and the members of the Advisory Committee that the EXIM Board should renew the partnership by long enough for PEFCO to fulfill its mission. We advise on periodic and more regular reviews of the PEFCO partnership, in combination with the existing authority to terminate the agreement at will.

Sincerely,
Subcommittee members
EXIM Advisory Committee

Lawrence Goodman, Center for Financial Stability (Subcommittee Chairman)
T.J. Raguso, Zions Bancorporation, N.A.
Alejandro Sanchez, Florida Bankers Association
Christopher Smith, Parity for Main Street Employers

CC:

Kimberly A. Reed, President and Chairman, EXIM

Luke Lindberg, Senior Vice President of External Engagement, EXIM